LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7280 **DATE PREPARED:** Dec 28, 2000
BILL NUMBER: HB 1183 **BILL AMENDED:**

SUBJECT: Tax Deduction for Agricultural Land.

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FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill allows a property tax deduction in the amount of 100% of the assessed value of not more than 200 acres of actively used farm land to an individual who is a farmer and meets certain other qualifying criteria.

Effective Date: July 1, 2001.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a one cent tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. If this bill results in an AV reduction of $3.3 B to $7.1 B, as explained below, the loss to the State Fair and State Forestry funds would total about $109,000 to $237,000 per year.

Explanation of Local Expenditures:

Explanation of Local Revenues: Beginning with property tax paid in CY 2003, this bill would allow a 100% deduction from the assessed value of up to 200 acres of agricultural land per individual taxpayer if

(1) The land was actively used as agricultural land for at least four months in the previous year;
(2) The farm operator received the majority of their previous year income from farming;
(3) Not more than 25% of the taxpayer's previous year farming income was received under a prearranged contract with entities that owned the seed or livestock that produced the income; and
(4) The taxpayer did not own or operate a confined feeding operation on March 1 for cattle, fowl, or more than 2,000 swine or sheep.

Because of a change in the definition of assessed value that will take effect with the 2001 payable 2002 tax year, all assessed values (AV) will be equal to three times the current AV. Tax rates will be adjusted downward to reflect the change in AV. These scheduled changes will not affect final tax bills in any way. For clarity, all references to assessed valuation will be in 2002 terms.

Data /Assumptions: The 1998 payable 1999 net AV of agricultural real property was $14.5 B (2002 terms) and the net property tax was $302.9 M. Data from the Census of Farming, including the number of farms by size of farm, was used to estimate the number of acres on each farm that would qualify for the deduction. In addition, an adjustment was made to take into account the probable change in the base true tax value of farm land from $495 to $1,050 per acre due to the upcoming reassessment.

Estimation Issues: In estimating the impact of this bill, special attention was given to the impending real property reassessment. The final rules on real property assessment will have a direct impact on property tax rates and the amount of the property tax levy that will be attributed to any one class or type of property. Reassessment will shift some of the property tax burden from some property classes to others. Due to the uncertainty surrounding the next reassessment and the amount of the shifts, this analysis projects the tax value of the agricultural land AV deduction within a range, using a small reassessment shift and a large reassessment shift. The estimated shifts are based on projected increases in total assessed value. The smaller total assessed value increase of 25% was based on previous Indiana reassessments while the larger total assessed value increase of 80% was based on the estimated impact of reassessing property using a market value approach. It was also assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

Fiscal Impact: If all eligible taxpayers apply for the deduction, the reduction in AV is estimated at $3.3 B to $7.1 B. Reductions of the AV tax base cause a shift of the property tax burden from the taxpayers receiving the reductions to all taxpayers in the form of an increased tax rate. A $3.3 B to $7.1 B reduction in agricultural land AV would cause a statewide tax shift of about $57 M to $176 M in CY 2003, depending on the actual AV deducted and the final tax rates set after reassessment.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction amount applicable to that fund.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: County auditors.

Information Sources: 1998 PAY 1999 Property Tax Analysis, State Board of Tax Commissioners; 1997 Census of Agriculture, U.S. Dept. of Agriculture.